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MARCH 1980 SURVEY March 28, 1980

Surveys of Consumer Attitudes

Richard T. Curtin, *Director*

CONSUMER SENTIMENT FALLS TO NEW RECORD LOW LEVEL

**In the March 1980 survey, the Index of Consumer Sentiment was 56.5, down more than 10 Index-points from February 1980 (66.9) and March 1979 (68.4), and represents the lowest level recorded in more than a quarter-century. At no time have consumers been more pessimistic about their own personal financial situation or about prospects for the economy as a whole. Importantly, the major portion of these declines were recorded prior to President Carter's latest inflation message -- just 10 percent of the interviews were conducted after Carter's speech.

**Among families with incomes of $15,000 and over, the Index of Consumer Sentiment was 51.3 in March 1980, down from 60.2 in February 1980, and 65.2 in March 1979. The March 1980 Index figure of 51.3 is below the prior record low of 53.6 recorded in February 1975.

**New record low levels recorded in March 1980 include:

*Nearly half (48 percent) of all families reported in March 1980 that they were worse off financially than a year earlier, twice the proportion who reported an improved financial situation (24 percent).

*Three-in-four respondents (76 percent) expected bad times financially for the economy as a whole during the next 12 months, while just 14 percent expected improvement.

*Interest rates were expected to increase during the next 12 months by 71 percent of all families in March 1980 and the highest rates of expected inflation were recorded during early 1980, with consumers expecting inflation to average 12% during the next 12 months.

**Favorable attitudes toward buying conditions for household durables declined significantly in the March 1980 survey, while attitudes toward buying conditions for houses declined by a more moderate amount, and buying conditions for automobiles remained largely unchanged from month earlier readings.

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The establishment of new record low levels in consumer attitudes and expectations indicates further weakened prospects for consumer sales throughout the balance of 1980. By the time Carter announced credit controls, high interest rates and tight credit conditions had already greatly depressed attitudes toward buying conditions, not only for houses and vehicles but also for household durables. Since credit cards are frequently used for purchases of household durables, the likely impact will be to quickly depress sales of durables.

Monitoring Economic Change Program
Institute for Social Research • P.O. Box 1248 • Ann Arbor, Michigan 48106 • (313) 763-5224

New Record Lows

The March 1980 Index figure of 56.5 is below the prior all-time record low of 58.0 recorded in Febraury 1975. As shown in the accompanying table, four of five Index components were less favorable in March 1980 than the prior record lows recorded in late 1974 and early 1975. The only exception involved attitudes toward market conditions for household durables, which remains 20 Index-points above record lows. Favorable buying attitudes have been based on buy-in-advance price rationales, although recent surveys have signaled the rising importance of credit considerations in spreading unfavorable attitudes. The recently announced credit controls are likely to cause further declines in buying attitudes toward household durables, in addition to the growing impact on the housing and vehicle markets.

TABLE A

		Index Components[a]				
		Current		Expected		
	Index	Personal Finances	Buying Conditions	Personal Finances	12-Month Business	5-Year Business
October 1974-February 1975 Low	58.0	81	96	99	45	47
March 1980 Survey	56.5	76	116	92	38	41
Difference	-1.5	-5	+20	-7	-7	-6

[a]Table entries are the sample proportion giving favorable replies minus the proportion giving unfavorable responses, plus 100.

Personal Finances Reach Record Low

During the first three months of 1980, evaluations of personal financial progress have turned sharply pessimistic. In March 1980, just 24 percent reported that their families were better off financially compared with a year earlier, down from 30 percent in February and 34 percent in January 1980. Similarly, reports of worsening personal finances rose from 38 percent in January to 45 percent in February and 48 percent in March 1980. Underlying this shift, fewer respondents mentioned income increases (from 34 percent in January to 25 percent in March 1980), and more frequently mentioned the financial strain caused by higher prices (from 39 percent in January to 47 percent in March 1980).

Expected changes in personal finances have also become more unfavorable in early 1980, and have nearly reversed the entire improvement recorded in the last half of 1979. Among all families, 20 percent expected to be better off financially in a year (identical with the July reading, but down from 28 percent in January 1980), and 28 percent expected to be worse off financially (identical with July 1979, but above the 22 percent in January 1980). This bleak outlook for personal finances is based on the expectation that future price increases will exceed increases in family income. In March 1980, 56 percent of all families expected real income declines during the next year, the largest proportion recorded during the past four years.

Favorable Business Expectations Reach Record Low

Since mid-1979, news of recent business developments heard and recalled by respondents has remained overwhelmingly negative in each of the monthly surveys. By March 1980, reports of unfavorable news items exceeded favorable items by a margin of 82 to 11 percent. One-in-four families (one-in-three among high income families) mentioned interest rate increases and tight credit in the March 1980 survey.

Current business conditions have been viewed unfavorably by the majority since mid-1979. Among all families, 69 percent reported that business conditions were worse than those of a year earlier, somewhat above the 65 percent recorded in July 1979, and significantly less favorable than the 47 percent recorded in March 1979. Just 15 percent of all families reported

in March 1980 that business conditions had improved during the past year, down from 22 percent in July 1979, and much below the 33 percent recorded in March 1979.

Growing pessimism concerning expected future changes in business conditions was recorded in the March 1980 survey, which reversed the improvement in short term business expectations since mid-1979. Among all families, 42 percent expected business conditions to worsen in the year ahead, up from 27 percent in February 1980, and 38 percent in March 1979. Just 14 percent of all families expected business conditions to improve during the next 12 months, down from 21 percent in February 1980, but slightly above the 10 percent in March 1979.

Combining respondent reports about past and expected changes in business conditions indicates that one-third of all respondents reported business conditions were worse than a year ago and expected them to further worsen in the year ahead. Reports of cumulative declines increased significantly in the March 1980 survey (32 percent) from February 1980 (22 percent), and March 1979 (24 percent).

More families expected bad times financially in the economy as a whole during the next one year and five year periods than ever before recorded in these surveys. Among all respondents, 76 percent expected bad times financially in the economy during the next 12 months, up from 67 percent in February 1980 and 63 percent in March 1979. Good times financially were expected by just 14 percent of all families in March 1980, down from 22 percent in February 1980 and 20 percent in March 1979. Short term business expectations were already at greatly depressed levels in the March 1979 survey, with three times as many respondents expecting bad times rather than good times financially; by March 1980, five times as many respondents expected bad rather than good times financially.

In March 1980, 72 percent of all families reported that they expected bad times financially in the economy as a whole during the next 5 years, a new record level. Favorable long term business prospects were held by just 13 percent of all families in the March 1980 survey, down from 21 percent in February 1980, and 16 percent in March 1979. The March survey reverses the entire improvement recorded in long term business expectations since mid-1979.

Record High in Interest Rate Expectations

Interest rate expectations grew sharply less favorable in the March 1980 survey, conducted largely before Carter's credit controls message, with more families now expecting increases in interest rates than ever before recorded. Following the October 1979 monetary policy announcement, interest rate expectations improved considerably, with the proportion expecting increases falling from 62 percent in November 1979 to 40 percent in December 1979. Since then, the expectation of increasing rates has risen to 71 percent in March 1980 from 47 percent in February and 45 percent in January 1980. Similarly, the proportion of respondents expecting declines fell from 34 percent in December 1979 to 10 percent in March 1980.

Expected changes in unemployment grew less favorable in March 1980, with 57 percent of all families reporting that they expected increases in unemployment during the next 12 months, up from 46 percent in February 1980, and 41 percent in March 1979. Unemployment was expected to decline by just 7 percent of all families in March 1980, down from 13 percent in February 1980.

In March 1980, 53 percent of all families expected prices to increase by 10% or more during the next 12 months, up from 50 percent in February 1980, and just 36 percent in March 1979. Overall, consumers expect prices to increase by 12% on average during the next 12 months in March 1980, up from 10.7% in February, and 9.7% in March 1979.

Confidence in government economic policy to combat inflation and unemployment declined in the March 1980 survey, nearly reversing the improvement recorded since mid-1979. In March 1980, 43 percent of all families rated government economic policy as poor, up from 34 percent in February 1980, and 36 percent in March 1979. Confidence in government economic policy was somewhat less favorable in July 1979 (48 percent rated policy as poor, the highest level recorded under the Carter administration.)

Attitudes Toward Market Conditions Decline

Unfavorable attitudes toward buying conditions for durable goods increased sharply in March 1980, reversing the January and February gains. Although the majority (54 percent) continue to hold favorable buying attitudes, 38 percent of all families reported unfavorable buying conditions for durables in March, up significantly from 26 percent in February 1980 and 25 percent in March 1979. The increase in unfavorable ratings was marked by greater concern over high prices and high interest rates. In March 1980, 16 percent of all families reported unfavorable buying attitudes because of tight credit and high interest rates, compared with just 4 percent a year ago. Buy-in-advance rationales increased from 33 percent in February 1980 to 43 percent in March, while mentions of good buys being available at low prices declined from 23 percent in February to 12 percent in March 1980.

Attitudes toward buying conditions for houses were somewhat less favorable in March than February 1980, and remain at greatly depressed levels. Thirty-two percent of all families report favorable buying conditions for houses compared with 36 percent in February and 50 percent in March 1979. Unfavorable buying conditions were reported by 62 percent of all respondents in March 1980, compared with 59 percent in February 1980 and 39 percent in March 1979.

Favorable buying attitudes for vehicles were held by 45 percent of all families in March 1980, identical to the proportion reporting unfavorable buying conditions. The March reading is unchanged from the February 1980 survey, although somewhat less favorable than year ago readings. Compared with a year ago, respondents more frequently mentioned that favorable assessments were based on the availability of good buys at low prices (from 5 to 14 percent) and new fuel efficient models (from 7 to 13 percent). Buy-in-advance price rationales were mentioned less frequently in March 1980 (22 percent) than in March 1979 (35 percent). In explanation for unfavorable ratings, high interest rates and tight credit conditions were mentioned by 17 percent of all families in March 1980, up from 6 percent in March 1979.

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707 interviews were conducted between February 28 and March 23, 1980.